

# Incentives and Guidelines for Investing in California

## State Incentives

The state has a variety of incentives in place to encourage your investment and reduce the cost of starting and operating a business in California.

The California Technology, Trade and Commerce Agency works closely with businesses to identify and package those incentive programs that have the greatest potential impact on a company's decision to expand in California. Often, Red Teams are created to bring the kinds of public and private resources together that convince investors to move ahead with an expansion opportunity in the state. It is important to note that many incentives are site driven. Others are negotiated with local government on a case-by-case basis or under an existing local economic development policy. California's major state-level incentive programs are described in this section.

## Targeted Tax Incentives

California has made a concerted effort to encourage new investment through the creation of various targeted tax incentives.

### ***Manufacturers' Investment Credit***

Certain manufacturers operating in California are eligible for a 6 percent manufacturers' investment credit (MIC). This credit is generally unlimited. The manufacturers' investment credit can be used to offset income or franchise tax based upon the purchase or lease of manufacturing and related equipment which is "depreciable" under certain federal regulations and has California sales or use tax paid on its purchase. The credit also includes certain capitalized "direct" labor costs. In addition "special purpose buildings and foundations," (i.e. clean rooms) for certain electronic manufacturers, semiconductor equipment manufacturers, commercial space satellite manufacturers, custom or prepackaged computer software manufacturers, and property related to specified pharmaceutical activity are eligible for this credit. The credit can be claimed against the bank and corporation tax. Any unused credit can be carried forward for eight years. Specified taxpayers get carry forward 10 years. It is important to note that the MIC can be coupled with enterprise zone credits discussed later in this section.

### ***Partial Sales or Use Tax Exemption***

California also provides "new" or start up companies the option of a 5 percent partial sales or use tax exemption on all qualifying manufacturing property purchased or leased generally during the company's first three years of operation.

Purchases eligible for an exemption include tangible personal property used in manufacturing, processing, refining, fabricating or recycling. Research and development activities as described in Section 174 of the Internal Revenue Code and property used in maintaining, repairing, measuring or testing the above noted property are also eligible. Tax imposed above 5 percent remains due. "Special purpose buildings" and leases of tangible personal property that are subject to tax measured by rentals may qualify. If qualified, the partial exemption is applicable for a period of six years from the date of inception of the lease.

The partial sales tax exemption is available as an option to the MIC on an item-by-item basis. Commercial aircraft parts, maintenance and related labor are now exempt from sales tax.

### ***In-Lieu Sales or Use Tax Refund***

The company might prefer to claim an in-lieu sales or use tax refund equal to the MIC available for the current year. Under this program, the company can elect to file a claim for refund equal to the amount of MIC that the company could have used to offset current year franchise or income tax liability (and can be claimed no sooner than the MIC could have been claimed).

### ***Research and Development Tax Credit***

Designed to encourage companies to increase their basic research and development activities in California, the research tax credit allows companies to receive a credit of 12 percent for qualifying research expenses (research done in-house) and 24 percent for basic research payments (payments to an outside company), making it the highest in the nation. To qualify, research must be conducted within California and must not include research for the purpose of improving a commercial product for style, taste, cosmetic, or seasonal design factors.

### ***Net Operating Loss Carryover***

California tax law allows businesses that experience a loss for the year to carry this loss forward to the next year in order to offset income in the following year. New businesses can carryover 100 percent of their losses over eight years if the loss is in their first year of operation, 100 percent over seven years if in their second year of operation and 100 percent over six years if in their third year of operation. Existing California businesses can carryover 50 percent of their losses for five years.

### ***Enterprise Zones***

California's [enterprise zone program](#) is an innovative partnership comprised of state government, local government and private businesses. The enterprise zone program encourages business development in 39 designated areas through special zone incentives. Companies situated within enterprise zones can take advantage of state and local incentives and programs not available to businesses outside the enterprise zone. Tax credits and benefits available to companies locating in enterprise zones include:

- tax credits for sales or use taxes paid on up to \$20 million of qualified machinery purchased per year. Qualified machinery includes machinery or machinery parts used to manufacture, process, fabricate, or otherwise assemble a product, produce renewable energy resources, or control air or water pollution. In addition, qualified property is data processing and communications equipment, including, but not limited to, computers, computer-automated drafting systems, copy machines, telephone systems and faxes, and motion picture manufacturing equipment central to production and postproduction, including, but not limited to, cameras, audio recorders, and digital image and sound processing equipment.
- a hiring credit of \$26,894 or more for each qualified employee hired;
- a 15- year carryover of up to 100 percent of net operating losses;
- expensing up to \$40,000 of certain depreciable property;
- lender income deductions for loans made to zone businesses; and
- preference points on state contracts.

In addition, local incentives may be available that include reduction or elimination of local permit and construction-related fees; expeditious processing of plans and permits; reduced utility rates; reduced land costs; assistance in employee hiring; low-cost financing and low-interest revolving loans. For more information on the Enterprise Zone Program, please call (916) 324-8211.

### ***Local Agency Military Base Recovery Area***

[Local Agency Military Base Recovery Areas](#) (LAMBRAs) were created to stimulate job creation in areas experiencing military base downsizing and closure.

There are currently three military sites that are fully designated under the state's LAMBRA program. These are Mare Island Naval Shipyard in Vallejo, Castle Air Force Base in Merced and George Air Force Base in Victorville. Alameda Naval Air Station in Alameda and the Tustin Marine Corps Air Station in Tustin were conditionally designated in 1997. On June 24, 1999, McClellan and Mather Air Force Bases in Sacramento were conditionally designated as a single LAMBRA, as was Norton Air Force Base in San Bernardino.

LAMBRA designations are similar to enterprise zones. The designations allow communities to extend the aforementioned California tax credits to companies locating in a LAMBRA zone. Possibly the most extraordinary private development project to be undertaken at a closed military base is Pacific Telesis Customer Call Center at Castle Air Force Base. The company has invested more than \$20 million to refurbish two existing buildings and employs 850 workers.

Local incentives may also be available including reduction or elimination of permit and construction-related fees, expeditious processing of plans and permits, reduced utility rates and low interest revolving loans. For more information on LAMBRA, please call the Enterprise Zone Program at (916) 324-8211.

### ***Manufacturing Enhancement Area***

The [Manufacturing Enhancement Area](#) (MEA) was drafted to stimulate job creation in areas experiencing triple the State of California's unemployment in a Border Environment Cooperation Commission Region. Special state and local incentives encourage business investment and promote the creation of new jobs. The purpose of the program is to provide tax incentives to businesses and allow private sector market forces to revive the local economy.

Program Benefits for companies located in MEAs include: streamlined local regulatory controls; reduced local permitting fees; and \$26,894 or more in state tax credits for each qualified employee hired.

All manufacturing businesses that are engaged in those lines of business described in Codes 2011 to 3999, inclusive of the Standard Industrial Classification (SIC) and located in the MEA are eligible for program benefits. There are 2 MEAs located in California. They are the Cities of Brawley and Calexico. Each community is located in Imperial County. A MEA designation lasts until December 31, 2012.

If your business is currently located in a MEA, or is interested in locating in a MEA, you can get more information by calling the California Trade and Commerce Agency's Enterprise Zone Program Unit at (916) 324-8211.

#### **Targeted Tax Area**

The Tulare [Targeted Tax Area](#) (TTA) is a program very similar to Enterprise Zones. Targeted Tax Area (TTA) incentives are only available to companies located in the TTA and engaged in a trade or business within the following Standard Industrial Codes: 2000-2099 Food Processing, 2200-3999 Certain Other Manufacturers, 4200-4299 Trucking and Warehousing, 4500-4599 Air Transportation and 4700-5199 Transportation Services, Communications and Wholesale Trade.

TTA State incentives include: tax credits for sales and use taxes paid on certain machinery, machinery parts, and equipment; tax credits for hiring qualified employees; fifteen year net operating loss carry-forward; and accelerated expensing deduction.

For more information on the Tulare Targeted Tax Area (TTA) contact the California Trade and Commerce Agency Enterprise Zone Program Unit at (916) 324-8211.

#### **Child Care Tax Credit**

Employers who pay or incur costs for the start up of a child care program or construction of an on-site child care facility are eligible for a credit against state income taxes equal to 30 percent of its costs, up to a maximum of \$50,000 in one year. Excess credits may be carried over to succeeding years.

#### **Joint Strike Fighter Income Tax Credits**

California recently created two entirely new income tax credits for businesses involved in the Joint Strike Fighter program. They are 1) a hiring wage credit and 2) a property credit. These credits apply to taxpayers under initial contract or subcontract to manufacture property for ultimate use in a Joint Strike Fighter. The credits are available for taxable years beginning on or after January 1, 2001, and before January 1, 2006.

Any excess credit can be carried forward for up to eight years. No credit would be allowed unless the bid upon which the Joint Strike Fighter contract or subcontract is based is reduced by the credit amount. The taxpayer is required to provide, at the request of the Franchise Tax Board, all references to the credit and ultimate cost reductions incorporated into any successful bid that was awarded a Joint Strike Fighter contract or subcontract.

The hiring wage credit is a specified sliding scale percentage (50 percent for 2001, 40 percent for 2002, 30 percent for 2003, 20 percent for 2004, and 10 percent for 2005) of employee wages that are treated as direct costs under Section 263A of the Internal Revenue Code (IRC) allocable to property manufactured in this state for ultimate use in a Joint Strike Fighter. The wages can be paid to new or existing employees whose services for the taxpayer are at least 90 percent directly related to the contract or subcontract to manufacture property for ultimate use in a Joint Strike Fighter. The credit is limited to \$10,000 per year, per employee, and must be prorated for partial years.

The property credit is generally patterned after the Manufacturer's Investment Credit (MIC). It is a credit of 10 percent of the cost of qualified property. Qualified costs are those upon which California sales or use tax has been paid and are capitalized. Qualified property means tangible personal property (IRC Section 1245(a)(3)(A)), and capitalized labor costs that are treated as direct costs under section 263A of the IRC allocable to that property, used by a taxpayer primarily in activities to manufacture a product for ultimate use in a Joint Strike Fighter.

The credit must be recaptured if, within one year of being placed in service, the property is sold, moved out of state or used for purposes other than manufacturing a product for ultimate use in a Joint Strike Fighter. The taxpayer would not be allowed to take this credit and the MIC for the same item of property. However, the taxpayer *can* take this credit and the Enterprise Zone Sales and Use Tax credit for the same item.

#### **Employee Training**

While California may boast of being the fifth largest economy in the world, its greatest asset remains your business' greatest asset - people. In California you will find the most skilled workforce in the country and access to

a world-class university system. California believes in reinvesting in its workforce and will dedicate the human and financial resources necessary to ensure your success here. A full spectrum of services are available to recruit, screen and train quality workers on or off-site of your facility. Once you have made a decision to utilize these services, a single point of contact will coordinate everything. As your workers keep your company competitive, they also keep California competitive.

### ***Job Referral and Placement***

The State of California, through its Employment Development Department (EDD), is ready to meet your company's needs. These services include a dedicated staff to conduct statewide job searches, recruitment, pre-screening, compilation of labor forecasts and labor market data specific to employers' needs. Moreover, EDD can assist you in understanding the Franchise Tax System and your unemployment account.

EDD is the only agency that can work with you to access the state's entire workforce as well as coordinate recruitment activities with local community-based organizations that target a specific group of unemployed individuals. EDD can provide a full spectrum of services through a sophisticated network that can match openings with qualified workers anywhere in the state. Additionally, EDD will work with you to customize on-site training, focused recruitment, relocation and placement of pre-qualified workers, referral to testing and assessment as necessary to match your requirements.

### ***EDD Job Service***

In its main function as an employment service, EDD's Job Service uses the latest computer technology to serve the needs of employers and job seekers. This automated system, called CalJOBS, matches qualified job applicants electronically with employers' job openings. Highly skilled Job Service specialists expertly screen the top-ranked computer selection and refer those most closely matching the specification of the job listing.

Through its CalJOBS system, Job Service offers a statewide network that provides an instant link between employers and job seekers anywhere in California. This network provides employers with quick access to the largest available pool of job ready applicants.

### ***Working with Business***

EDD's Job Service works with Employer Advisory Groups, which operate in most California communities. These organizations of local business people help Job Service stay responsive to the changing needs of the community.

Together, Job Service and the Employer Advisory Groups sponsor employer seminars, job fairs and other events that provide valuable information and guidance for job seekers and local businesses. Each California Technology, Trade and Commerce Agency regional office has an EDD specialist to assist you in accessing these services.

### ***Additional Services for Employers***

- Current labor market information in planning for business expansion, relocation and future hiring and training needs.
- Focused recruitment campaigns for new business ventures or facilities needing a large number of specialized workers in a hurry.
- Statewide search using CalJOBS to find specialized workers.

### ***Employment Training Panel***

The [Employment Training Panel](#) (ETP) assists businesses in acquiring and retraining a highly skilled workforce with expertise in very specific fields in order to increase competitiveness and productivity. The Employment Training Panel is a program supported by California employers through a small contribution to the California Employment Training Fund. It is the only program designed to train the existing workforce.

Employers choosing to participate in the program can utilize the reimbursements provided by ETP to offset the costs of developing and implementing customized training for their new or existing employees. Training can be done on site by the employer or through other training organizations of their choice. Reimbursements are made to the company for each employee that completes training and remains on the job for 90 days.

Eligibility for the program is open to all companies that

- contribute to the state's Employment Training Fund;
- face out-of-state competition and need to retrain current employees; and/or

- need to upgrade workers in areas where there are skills shortages; and/or
- hire and train unemployed workers eligible to receive unemployment insurance; and/or
- have special, unique training needs in areas such as defense conversion or emerging technologies.

Eligible trainees can include existing employees or the hiring of new employees that meet the program's requirements.

Since its inception, the ETP has provided \$550 million in funding to over 27,000 California businesses for the training or retraining of 280,000 workers. Each California Technology, Trade and Commerce Agency regional office has an ETP specialist to assist you in applying for funds.

## **Financing Assistance**

Several state-sponsored financial assistance programs are available to firms wanting to locate, expand or modernize facilities in California. The types of assistance available can be grouped into three broad categories: business financing, environmental loans and public infrastructure financing.

### ***Business Financing***

Business Financing is provided directly to companies undertaking various projects. Each program has its own specific requirements for qualification and terms for approval. Listed below is an overview of each program and the basic requirements. See the [California Business Assistance Programs table](#) to determine at-a-glance which programs may be the most applicable to your project.

### ***Industrial Development Bonds***

California cities, counties and state government have the authority to offer low interest financing to businesses locating in their communities through the use of tax-exempt industrial development revenue bonds. An eligible bond project can be the construction of a new plant, or replacement of all or part of an existing plant. Industrial activities eligible for financing include assembly, fabrication, manufacturing and processing.

The primary advantage of industrial development bonds is that the financing provided bears an interest rate significantly lower than conventional methods (the lower interest rate is the result of the tax exempt status of the securities), the bonds are long term 15-30 years maturity, and may be assumable.

Companies taking advantage of industrial development bond financing receive approval for a project through a local industrial development authority (IDA), a joint powers authority, or the California Infrastructure and Economic Development Bank. The project must also receive private activity bond allocation from the California Debt Limit Allocation Committee.

To qualify for industrial development bonds a borrower needs to meet certain eligibility criteria: 1) the firm must be engaged in a manufacturing, processing or value-added industry, 2) the total project cost should be at least \$2 million and may not exceed \$10 million, 3) the borrower must secure a letter of credit for 100 percent of the bond issue from a bank with a substantial credit base, 4) the capital expansion must provide a public benefit such as creating new jobs; and 5) the project must have city or county support.

The proceeds from a bond issue can be used to pay for virtually all costs incurred by the company for its project including the financing of land acquisition, building construction, machinery and equipment, and other incidental costs as well as a portion of the expenses associated with the financing and issuance of the bonds. For more information, call the California Industrial Development Financing Advisory Commission at (916) 653-3843 or the [California Infrastructure and Economic Development Bank](#) at (916) 322-1399.

### ***Pollution Control Financing***

The Pollution Control Financing Authority, located in the State Treasurer's Office, provides businesses in California with an affordable method of financing pollution abatement equipment, waste disposal and resource recovery facilities for the management of environmental pollution hazards. The Authority offers tax-exempt or taxable bonds and loan portfolio insurance to businesses seeking financing for qualified pollution control projects.

The entire cost of a pollution control project, including land and buildings attributable to the project, equipment, engineering fees and related financial and administrative expenses, can be funded by the program. For more information on pollution control financing call the California Financing Authorities, at (916) 654-5610.

**Small Business Loan Guarantee**

The Small Business Administration's [loan guarantee program](#) promotes job retention and creation and encourages small business entrepreneurship particularly among minority, women, and disabled persons. A "small business" is a manufacturer of 500 employees or less, or a retailer with gross international sales ranging from \$3.5 million to \$14.5 million depending on the industry. The State of California's Small Business Loan Guarantee Program differentiates itself from the U.S. Small Business Administration's programs by providing a niche in guarantee financing on revolving lines of credit, small loans and agricultural loans.

Businesses applying to the program receive funding from a private lender. This loan is guaranteed by one of 12 nonprofit regional development corporations organized under the California Corporations Code.

All loan proceeds must be used in California and the proceeds cannot be used for entertainment enterprises or speculative purposes. To qualify a borrower must not be able to obtain credit based solely on his or her own financial condition, but must demonstrate reasonable capacity to repay the loan. The maximum guarantee is 90 percent of the loan value not to exceed \$350,000 and the maturity of the guarantee is not to exceed seven years. Interest rate and loan origination fees are negotiated by the borrower and the lender. For more information on the loan guarantee program, call the California Trade and Commerce Agency's Office of Small Business, at (916) 322-5790.

**SBA 504 Loans**

SBA (Small Business Administration) 504 loans are marketed, processed, closed and serviced by Certified Development Corporations (CDC) throughout California. Through the SBA 504 Program, CDCs provide 90 percent real estate financing with a special emphasis on rural areas and distressed urban areas. The second mortgage, long-term, fixed-rate financing nature of the program allows banks to participate in the business's expansion by reducing their risk on real estate exposure. The benefit to the businessperson is the lower down payment requirement (10 percent) and the longer-term, fixed-rate second mortgage which translate into reduced monthly payments.

Accredited Lender Program CDCs provide streamlined loan processing/servicing and receive accelerated credit decisions from SBA. Premier Certified Lender Program CDCs accept financial responsibility for loans they underwrite and need only limited review from SBA. One full time equivalent job for every \$35,000 of SBA funds is desired within two years of project funding. Individual job goals can be somewhat compromised if the CDCs overall portfolio meets these requirements. At that point, community impact and public policy goals come into play.

Eligible 504 loan proceeds include the purchase of land, existing buildings, new construction, and the acquisition of machinery and equipment with a ten year useful life. The private sector participant takes 50 percent of project cost and takes a first lien on assets pledged as collateral. The SBA takes a second lien on assets and takes 40 percent of project cost, up to \$1 million in some cases. Owners inject 10 percent in the form of cash or equity in real estate. For more information on SBA 504 loans, call the California Statewide Certified Development Corporation, call toll free at (800) 348-6258.

**California Capital Access Program**

The California Capital Access Program (CalCAP) encourages banks to make loans to California small businesses. The State Treasurer's Office, through the California Pollution Control Financing Authority (CPCFA), has committed to provide "loan loss" guaranty accounts to participating banks willing to make loans to small businesses with higher than conventional risk.

Since April of 1994 participating banks have made CalCAP loans and lines of credit available to thousands of California businesses in amounts ranging from \$100,000 to \$2.5 million. Banks give extra weight to the most recent year's results of a business instead of a several-year average. This benefits the most profitable and fast-growing companies. With CalCAP's flexible guidelines, business assets and personal guarantees are acceptable as collateral when other collateral is not available.

A business's primary location must be in California with the business activity generated from the loan created and retained in California. Businesses must have fewer than 500 employees with more than 50 percent of the employees working in California and have at least 25 percent of its sales derived from a CalCAP eligible industry. Eligible SIC codes exclude most service and retail businesses. For more information on CalCAP, contact the California Financing Authorities at (916) 654-5610.

**Sudden and Severe Economic Dislocation Loan Program**

The [Sudden and Severe Economic Dislocation Loan Program](#) (SSED) provides business loans and, therefore, job creation in areas of the state affected by plant and military base closures, defense downsizing, industry layoffs and



presidentially-declared disasters. Reemployment and retention of jobs in defense-related communities is a top financing priority. Below market rate loans of up to \$500,000 are available for land, buildings (no construction), machinery and equipment and working capital for projects which would not normally qualify for conventional financing. The program is designed to be used in conjunction with private lending and investment sources. For more information on SSED, contact the California Technology, Trade and Commerce Agency's Office of Business Development-Rural Assistance Unit at (916) 322-8311.

#### ***California Technology Investment Partnership Program***

The mission of the [California Technology Investment Partnership Program](#) (CalTIP) is to accelerate the development of new, globally competitive technology-based commercial products and services from California firms and consortia. The CalTIP program provides matching grants and technical assistance to California-based businesses, consortia, nonprofit organizations and public agencies for projects qualifying for federal funds through cost share technology-based projects from a variety of federal agencies.

The [Regional Technology Alliances](#) (RTAs) have primary responsibility for evaluating and ranking the proposals from their designated geographical areas. If a proposal is statewide in nature, or if no RTA has been designated for a geographical area, applications may be sent directly to the California Technology, Trade and Commerce Agency's Division of Science Technology and Innovation for evaluation and ranking.

Following the evaluation and ranking of proposals by the RTAs, the Division of Science, Technology & Innovation convenes a peer review panel to recommend state funding commitments or endorsements by the California Trade and Commerce Agency. The peer review panels are composed of industry representatives and technical experts, nonvoting representatives from each RTA and other members.

All applications, which receive a positive endorsement from the Division of Science, Technology and Innovation peer review panel, are presented to the Secretary of the California Technology, Trade and Commerce Agency.

Proposals are evaluated based on immediate and measurable ability to create jobs, clearly identified product line and market, inclusion of a training component for workers associated with the project, demonstrated links with other applicable programs, and whether the proposers and partners are small businesses. For more information on CalTIP, contact the California Technology, Trade and Commerce Agency's Division of Science, Technology and Innovation at (916) 322-1394.

#### ***California Export Finance Loan Guarantees***

The [California Export Finance Office](#) (CEFO) helps small and medium-sized California companies finance their export sales by providing working capital loan guarantees to financial institutions. CEFO guarantees cover up to 90 percent of an export loan, allowing for a maximum guarantee of \$750,000 and a loan of \$833,000. CEFO offers the following export loan guarantees in support of short term (up to 18 months) transaction-specific working capital loans for:

- Pre-Shipment and Post-Shipment Working Capital
- Letter of Credit financing
- Purchase Order financing
- Open Account financing
- Standby Letter of Credit financing for Performance Bonds
- Easy access to Foreign Credit Insurance through government and private insurance agencies.

Through co-guarantee agreements with both the U.S. Small Business Administration (SBA) and The Export Import Bank of the United States (Ex-Im Bank), CEFO can double its guarantee capacity to provide the exporter with a guaranteed loan of up to \$1.6 million. Also, as a City/State Partner for Ex-Im Bank, CEFO has the authority to administer their loans, guarantees and insurance products for California companies.

Contact the California Trade and Commerce Agency's Export Finance Office at (562) 499-6014 for more information on these programs.

#### ***Old Growth Diversification Revolving Loan Program***

The [Old Growth Diversification Program](#) provides business capital that leads to the creation and retention of jobs in areas of California impacted by timber harvest reductions. The program funds projects for business expansion as well as start-up ventures. The funds can be used to purchase business real estate, machinery, equipment, inventory, or for working capital.

Businesses located in Del Norte, Glenn, Lake, Humboldt, Mendocino, Shasta, Siskiyou, Tehama, and Trinity counties may apply. Loan amounts between \$5,000 and \$250,000 are available with a fixed interest rate of 10 percent. Loans are packaged and serviced through partnership with three regional Economic Development Corporations located in the targeted areas.

For more information on this program, call the California Technology, Trade, and Commerce Agency at (916) 323-0494.

#### ***Environmental Loans***

California is committed to the preservation of the environment and has implemented various loan programs to help companies clean up the environment and implement environmentally friendly programs.

#### ***Underground Storage Tank Loans***

[Loan](#) proceeds must be used to repair, replace (includes acquisition and installation) or upgrade underground petroleum tanks only, with an allowance for ancillary equipment required by current regulations. The maximum loan amount is \$750,000. Loans can be given for up to 100 percent of the total project cost.

#### ***Hazardous Waste Reduction Loans***

These [loans](#) assist small businesses to reduce waste generation or to reduce the hazardous properties of waste generated. Proceeds can only be used to finance hazardous waste equipment acquisition, installation and processes. The California Department of Toxic Substance Control, Pollution Prevention and Technology Development Division, must determine that the equipment or processes to be financed qualifies for this program. Direct loans for up to 100 percent of the project's costs with a maximum loan amount of \$150,000 are available. The maximum term of the loan is seven years. Call the California Technology, Trade and Commerce Agency's Office of Small Business at (916) 322-5790 for more information on environmental loans.

#### ***Recycling Market Development Loans***

Any business or local government agency located in a Recycling Zone utilizing post-consumer or secondary waste material in their production process may apply for a recycling loan. Private businesses may borrow funds for acquisition of real property, equipment, leasehold improvements, working capital, or refinancing of onerous debts. Local government may apply for funds to finance public works infrastructure which directly supports these businesses. Each eligible business or local government agency may borrow up to 50 percent of the cost of any project with a maximum of \$1 million. Contact the California Integrated Waste Management Board at (916) 255-1000 for more information.

#### ***Public Infrastructure Financing***

Public infrastructure financing provides financial assistance to cities and counties for public infrastructure projects. Although not directly available to individual businesses, cities and counties can obtain public infrastructure financing to assist qualified businesses locating in their areas.

Thus, although an indirect manner of financing, public infrastructure financing programs should be considered by businesses conducting qualified projects in designated areas. Several public infrastructure financing programs exist.

#### ***California Infrastructure and Economic Development Bank***

The [California Infrastructure and Economic Development Bank](#) (CIEDB) exists to promote economic development and the revitalization of California municipalities. Through the issuance of loans, the sale of bonds, and the provision of credit enhancements, the Bank provides vital financing to local government entities.

Eligible applicants for CIEDB loans include any local government subdivision, such as: cities, counties, departments, agencies, commissions, non-profit-corporations (formed on behalf of applicant), special districts, assessment districts, and joint powers authorities.

Eligible projects include: city streets, state and county highways, public transit, drainage and flood control, educational facilities, environmental mitigation, port facilities, sewage collection and treatment, solid waste collection and disposal, public safety facilities, water treatment and disposal, water treatment and distribution, defense conversion, parks and recreational facilities, power, and communications facilities. Loan rates and terms, and related information can be found at <http://commerce.ca.gov/ciedb>. Additional information is available by contacting CIEDB at (916) 322-1399.



### ***Rural Economic Development Infrastructure Program***

The [Rural Economic Development Infrastructure Program](#) (REDIP) is designed to promote the economic revitalization of rural California by financing public infrastructure improvements which lead to the creation or retention of permanent, private sector jobs through the retention, expansion and attraction of businesses in rural areas. The purpose of REDIP is to provide financing for the construction, improvement or expansion of public infrastructure with the intent of creating jobs in rural cities and counties with an unemployment rate either equal to or above the state's average unemployment rate.

## **Other Incentives**

### ***Electric Industry Restructuring***

Since April 1998, California consumers from all customer classes (residential, commercial, agricultural, industrial) are able to buy electricity from the electric service provider (ESP) of their choice. The goals of a competitive electric industry are consumer choice in electric services and competition among utilities and other electricity generators to reduce electric rates in California. Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) currently deliver 70 percent of the power in California.

Companies may purchase electricity from the traditional supplier or choose to buy from ESPs based solely on service options and price. Companies may also contract with a city, county, an association, a broker or an aggregator to purchase electricity.

The California Power Exchange (CalPX) determines the price of electricity from the competitive spot market hourly or half-hourly according to demand for and supply of electricity. It publishes the price of electricity so consumers can shift their energy use to times when it is less expensive.

PG&E, SCE and SDG&E continue to own their transmission facilities but have turned the operation of these facilities over to an Independent System Operator (ISO). The Federal Energy Regulatory Commission regulates the ISO. The ISO, functioning like an air traffic controller for energy, operates the state's transmission system to ensure electricity flowing into it reaches all customers when they need it so they continue to have reliable service. The ISO ensures that all generators have equal opportunity to send their electricity through the transmission system to their customers. Generators who ship electricity through the system pay a fee to cover system costs.

Utilities continue to have the "obligation to serve the public" and they continue to deliver electricity to your business even if you purchase electricity from a nontraditional provider.

Distribution lines link your business to the transmission system. PG&E, SCE and SDG&E operate distribution lines and are responsible for reliable, safe delivery of electricity to your business. The California Public Utilities Commission regulates their transmission and distribution rates using performance-based, rather than cost-of-service ratemaking.

PG&E, SCE and SDG&E must sell their power to the Power Exchange until March 31, 2002. If they wish to, municipalities, independent power producers, irrigation districts, and out-of-state producers may also sell power to the Power Exchange.

### ***Small Business Development Centers***

[California Small Business Development Centers](#) (SBDC) are a collaborative network of 42 regional service centers and over 60 outreach offices. The SBDC network engages a team of over 1,000 talented business advisors, staff, faculty, contractors and volunteers, to coach entrepreneurs in growing and improving their businesses.

SBDCs focus on serving the needs of emerging businesses and growth industries unique to the economic development regions of the state. This partnership between the California Trade and Commerce Agency, the U.S. Small Business Administration, the Chancellor's Office of the California Community Colleges and local host organizations gives the smart entrepreneur a leg up on the competition.

Confidential consulting services are provided free of charge in a variety of areas including business plan development, marketing, personnel, financial analysis, legal assistance and access to capital.

Recognizing that people learn differently, have constraints on time and need real-world solutions, the service centers customize training courses in a mix of formats, flexible time schedules and hands-on learning. To defray the cost of training, nominal fees are charged.

In addition, the service centers are linked together electronically and utilize the particular strengths of each service center as well as specialized service centers and programs for export, patents and intellectual property, high technology and manufacturing to serve business.

#### ***Golden State Capital Network***

The Golden State Capital Network (GSCN) addresses the critical funding needs of entrepreneurial ventures, which typically do not meet the investment criteria of most established large institutional funding sources. GSCN matches growing companies in need of funding with appropriate investors in search of opportunities with a focus on Northern California and under-served rural areas of the state. GSCN does not become involved in the discussion or negotiation process between the parties, differentiating itself from financial intermediaries or investment brokers.

GSCN provides a quick and cost-effective way for entrepreneurs to expose their companies to a variety of investment sources, most of which they would never have reached otherwise. Investors in turn benefit from the increased number of opportunities they receive in a timely, selective and confidential manner. By entering into financing agreements with promising ventures, investors can leverage the innovation and fast market response of small companies to their mutual advantage.

GSCN is a not-for-profit organization within the Tri-County Economic Development Corporation (TCEDC). TCEDC is also a federally recognized Economic Development District affiliated with the U.S. Department of Commerce, Economic Development Administration. The network has offices in Sacramento and Chico and can be reached at (530) 893-8732.

#### ***Manufacturing Extension Centers in California***

The three Manufacturing Extension Centers (MECs) in California are not-for-profit organizations created to deliver state-of-the-art engineering, marketing, and human resource consulting services to the state's small and medium-sized manufacturing enterprises. The California Manufacturing Technology Center (CMTC) serves the Los Angeles basin, the Sacramento Valley and San Joaquin Valley. The Corporation for Manufacturing Excellence (Manex) serves the ten counties in the San Francisco Bay Area, and the San Diego Manufacturing Extension Center (SanMEC) serves the San Diego region.

These three California MECs provide a variety of services and technical assistance to manufacturers. These include:

- Quality management and ISO 9000 certification.
- MRP and MRP II production scheduling.
- Marketing services, including new product introduction and business planning.
- Capital equipment selection and installation.
- Environmental assistance.
- Plant layout and modernization.
- Process improvement and cycle time reduction.
- Business assessment to improve profitability.
- Process reengineering.
- Computerized process simulation.
- Product design.
- Work force development to strengthen productivity-driven manufacturing.

In addition to offering services and assistance to manufacturers, the MECs link with other elements of the supporting infrastructure in California such as educational institutions, complimentary service providers, local experts, industry groups, various state/local government agencies, as well as a national network of over 70 MECs. The centers can be accessed by dialing toll free 1-800-300-2682.

#### ***Health Insurance Plan of California***

The Health Insurance Plan of California (HIPC) is a state-sponsored insurance pool that offers affordable access to nearly two-dozen different insurers and 28 different health care options for companies with three to 50 employees. Once enrolled, the employer can remain with HIPC up until they grow to over 100 employees.

HIPC is able to offer discounted rates by pooling the premiums of participating companies. To date, over 8,000 companies and 110,000 employees are part of the program. For more information on HIPC call toll free 1-800-447-2937.

### ***Recycling Zones***

Recycling Market Development Zones were developed by the California Integrated Waste Management Board (CIWMB) to make aid available to communities and businesses that use recycled materials such as paper, newsprint, plastic, tires and green waste in the manufacture of goods. Businesses locating within these 40 zones can take advantage of low-interest loan packaging, local permit streamlining and reduced permit application fees, elimination of business license fees, other site location incentives (including low-cost land and infrastructure improvements), job training assistance, discounted utility rates, technical assistance and information sharing. For more information on Recycling Zones call the CIWMB at (916) 255-1000.

## **Local Incentive Options**

### ***Economic Revitalization Manufacturing Property Tax Rebates***

Section 5108 of California Property Tax Law permits local governing bodies to rebate some or all of the property tax revenue that local agencies would receive from "economic revitalization manufacturing property" for a period of five fiscal years from the date the property was placed in service. Tangible personal property must be directly involved in the manufacturing process, the project must lead to the creation of 10 new full-time manufacturing jobs, the company must pay wages of at least \$10 per hour and those jobs must be in continuous existence for the duration of the rebate. Local agencies include cities, the county, city and county, and special districts - except for school districts. These provisions sunset on January 1, 2003 unless extended by the Legislature.

### ***Capital Investment Incentive Payments***

On October 2, 1997, California ushered into play a new competitive tool that cities and counties employ to negotiate property tax rebates with high tech manufacturing companies. Under the new law, local governments could cap the taxable value of any new high tech manufacturing plant at \$150 million annually for up to 15 years. Local government would then charge the manufacturer an annual "community services fee" of about \$2 million.

This program commenced in the 1998-99 fiscal year and can only be activated by a majority vote of the local governing body. The California Technology, Trade and Commerce Agency certifies that the capital investment exceeds \$150 million and is a qualified manufacturing facility. Businesses described in Standard Industrial Classification (SIC) Codes 3500 to 3899 are eligible for the program. Special districts and school districts may also participate in the payment of capital investment incentive payments, although they may not make payment of an actual allocation.

A Community Services Agreement (CSA) dictates community service fee remittances, in amounts equal to 25 percent of the capital investment incentive amount calculated for that proponent for that fiscal year. This fee shall not exceed \$2 million in any fiscal year. Employees at the facility specified in the CSA must be covered by an employer sponsored health benefits plan and the average weekly wage, exclusive of overtime, shall not be less than the state average weekly wage. The "state average weekly wage" means the average weekly wage paid by employers to employees covered under unemployment insurance, as reported to the Employment Development Department for the four calendar quarters ending June 30, 1997.

### ***Local Financing Redevelopment Agency***

Various forms of financial assistance are available through redevelopment agencies in California. Business may benefit through direct financial assistance, land assemblage and the construction of public improvements. California redevelopment law defines the degree of economic or physical blight each redevelopment area must contain. Redevelopment is funded through incremental property tax revenue increases that are a direct result of increased property values. Assistance may be in the form of fee reductions, infrastructure improvements, land cost write-downs, mortgage interest write-downs and utility tax rebates. Recent legislation enables the Redevelopment Agency to provide financing for manufacturing projects under certain conditions. Capital financing or long term operating leases may also be permitted.

### ***Local Revolving Loan Funds***

Enterprising communities throughout California have recognized that revolving loan funds (RLF) are important economic development tools. RLFs are typically capitalized by the United States Economic Development Administration, Department of Agriculture and Housing and Urban Development's Community Development Block Grant Program. Their proceeds often provide critical capital to deserving small businesses that in turn, provide needed jobs in urban and rural areas throughout California.

Certain businesses may be targeted for assistance and most often the loan will be provided as part of an overall package in the form of gap financing. RLFs are guided by policies that outline loan or loan guarantee sizes, uses, rates, terms, special conditions and participation levels. The goals, objectives and priorities of the program are weighed against the portfolio's requirements and loans are approved or denied by a Loan Administration Board.

Conventional lending is required with the RLF taking a second or third position. Personal and/or corporate guarantees are required.

## **Tax Profile**

California's tax burden is effectively less than other states because our tax system is based largely on economic activity, not real and personal property. Also, California has no business inventory, mineral severance or inheritance tax. State government is financed by income and sales taxes and local governments are financed by property taxes, a portion of sales taxes and local taxes, assessments, and fees.

California is very conscious of the need to maintain a stable, predictable tax structure, one that enhances the competitiveness of our state's major industries. As presented earlier, California has enacted credits for research and development, establishment of child care centers, and enterprise zones. California also has a number of foreign trade zones. California's foreign trade zones are located in San Francisco, San Jose, Long Beach, Oakland, West Sacramento, San Diego, Palmdale, Los Angeles, Port Hueneme and Shafter.

Foreign trade zones are secured areas legally outside of U.S. customs territory usually located in or near customs points of entry. Foreign trade zones allow entry of foreign or domestic merchandise without formal customs entry or government excise taxes. Merchandise entering a zone may be stored, tested, sampled, relabeled, repackaged, displayed, repaired, manipulated, mixed, cleaned, assembled, manufactured, salvaged, destroyed or processed. Products exported from or imported into foreign trade zones are excluded from customs duty and excise taxes until the time of transfer from the foreign trade zone.

### ***Corporation Income and Franchise Tax***

Corporations deriving income in California are subject to either 1) the bank and corporation franchise tax or 2) the corporation income tax. Both taxes are levied at a rate of 8.84 percent of net income from California sources. In addition to the 8.84 percent tax rate, banks and financial institutions are subject to an additional tax of up to 2 percent which is imposed in lieu of business and personal property taxes.

### ***Corporation Franchise Tax***

The Franchise Tax is paid for the privilege of operating as a corporation in California and is paid by all corporations, banks and financial corporations that actively engage in any transaction for the purpose of financial gain or profit. It is prepaid and based on the income of the preceding year.

### ***Corporation Income Tax***

The Income Tax applies to those corporations that, while not "doing business" in California, do derive income from sources within this state.

### ***Apportionment and Allocation of Income***

Corporations are taxed only on their income from sources within California. California source income of a corporation conducting business activity both within and outside of the state is generally determined by apportionment (for business income), and allocation (for non-business income). The total business income from a corporation's trade or business is generally apportioned to California using a four factor apportionment percentage consisting of the sum of a payroll factor, a property factor and a double weighted sales factor, with the result divided by four. However, if most of a corporation's business receipts are from an agricultural, extractive, banking or financial activity, a three factor formula of payroll, property, and sales is used. Each factor is a ratio of a California amount to a total amount everywhere. For example, the sales factor is the ratio of California sales to total sales everywhere.

Non-business income is income not related to the trade or business of the corporation, which is produced from property or activity in specific states. Such income is directly allocated only to those states, or to the taxpayer's commercial domicile.

### ***Unitary Method***

If a group of corporations are engaged in a single trade or business, the group is treated as a single economic unit. Thus, the combined business income of the group is subject to apportionment using the combined apportionment factors for the entire group. Apportionment of income of a unitary group is reflected in a combined report, which is attached to the tax return of the members of the group which have California source income.

A group of corporations may be conducting a unitary business in many locations throughout the world. California law requires that the world wide unitary business income of the group be apportioned in a single combined report.

### ***Water's Edge Elections***

Effective for years beginning in 1988, if a unitary group of corporations has foreign members, the taxpayer members of the group may elect to exclude certain of the foreign entities from the combined report. The current election lasts for seven years, but is continuously renewed unless a notice of non-renewal is filed. However, if a foreign corporation (other than a bank) has an apportionment percentage in the United States in excess of 20 percent, or is a foreign sales corporation (FSC), it is still fully included in the water's edge combined report.

Foreign banks and other foreign corporations are included in the combined report only to the extent of their United States source income and factors, or they can be partially included to the extent they have subpart F income over current year earnings and profits. Except for certain corporations doing business in Puerto Rico, all United States incorporated entities are included in the water's edge combined report.

### ***Property Taxes***

Property taxes in California are levied and administered by county government. The State Board of Equalization performs an oversight role relative to the county assessors' activities. The County Tax Collector bills and collects tax, and the County Auditor distributes the revenue to the various public agencies sharing the revenue. The tax rate is 1 percent plus a component representing voter-approved bonded indebtedness for the district in which the property is located on the lien date.

Thanks to Proposition 13, real property is assessed at market value, then increased a maximum of 2 percent per year when the rate of inflation for the year is 2 percent or higher. Property is reassessed in the event of new construction or when ownership changes.

Manufacturing equipment is subject to local property taxes. It is assessed as personal property or as real property in the classification of fixtures. In either classification (personal/real) this equipment is subject to annual assessment at market value. Such equipment has a relatively short life and rapid depreciation; this feature assures a decline in assessed value each year.

Non-manufacturing equipment and pollution control equipment are subject to local property taxes. The equipment is assessed each year at market value, and depending on the manner affixed and other factors, equipment is classified as either real or personal property.

Raw materials, work in process, and finished goods, which will be held for sale or lease in the ordinary course of business are exempt from property tax under the definition of inventory. Raw materials (or parts), work in process, and finished goods held for use are subject to assessment.

As a general rule, manufacturing and non-manufacturing equipment is appraised with reliance on the cost approach to value. Businesses annually report the cost of acquisition and refinements of equipment to the county assessor. The property is reappraised annually using the cost approach in an effort to reflect depreciation and estimate the full cash value of the equipment.

### ***Telecommunications Surcharges and Taxes***

Various taxes and surcharges are assessed on telecommunications services by the State of California. These taxes and surcharges are itemized on consumers' telecommunications bills and are collected by the telecommunications carriers which then remit these funds as directed by the appropriate authorities. The surcharge rates vary from program to program and are usually adjusted every year based on the forecast demand of each program. Currently, there are five telecommunications surcharges supporting various public programs in California:

- **Universal Lifeline Telephone Service (ULTS) Surcharge - Current Rate: 0.00 percent**  
This surcharge funds the ULTS program which provides discounted local telephone services to low-income households.
- **California Relay Service and Communications Devices Surcharge - Current Rate: 0.192 percent**  
This surcharge funds the California Deaf and Disabled Telecommunications Program.
- **California High Cost Fund A (CHCF-A) Surcharge - Current Rate: 0.00 percent**  
This surcharge funds the CHCF-A program which provides subsidies to 17 small independent telephone companies to minimize rate disparity of basic telephone services between rural and metropolitan areas.
- **California High Cost Fund B (CHCF-B) Surcharge - Current Rate: 3.80 percent**  
This surcharge funds the CHCF-B program which provides subsidies to carriers of last resort for providing basic local telephone services to residential customers in high cost areas.

- **California Teleconnect Fund (CTF) Surcharge - Current Rate: 0.05 percent**  
This program provides discounted telecommunications services to schools, libraries, and other qualifying entities.

#### ***Worker's Compensation Reform***

California's once costly and burdensome workers' compensation system has undergone a major overhaul that has reduced annual costs by more than \$4 billion. While the costs of the system have been controlled and reduced, benefits to injured workers have increased. Actuarial and Technical Solutions, Inc. ranked California 23<sup>rd</sup> amongst the states in terms of cost for 1996.

Significant elements of the new worker's compensation system include caps on medical-legal evaluations and on vocational rehabilitation, use of managed care, elimination of the minimum rate law and a crackdown on fraud, all of which contribute to savings for the employer. Overall, the cost of workers' compensation premiums dropped more than 30 percent between 1993 and 1998.

New initiatives in the California workers' compensation system include development of a new information system for better monitoring, evaluation and new policy proposals. Health Care Organizations (HCO) are controlling costs and improving care in eleven locations statewide. California is one of two states to approve operation of 24 hour health care pilot programs. Utilization review oversight is now in place and outdated medical fee schedules have been replaced.

### **Permit Process**

California can readily accommodate business expansion and location projects with properly zoned, infrastructure-rich, industrial and commercial sites. Many communities have also adopted state-of-the-art permit streamlining practices that enable them to efficiently meet a company's project timeline.

#### ***Office of Permit Assistance***

The [Office of Permit Assistance](#) (OPA) within the California Trade and Commerce Agency assists individuals and corporations in identifying all of the permits needed for development projects and responds to questions about permit requirements and timetables associated with permits. OPA monitors the progress of permit applications, plans and schedules for permit review and arranges scoping meetings when necessary to assist in the permit process.

Many counties have business environmental resource centers that act as one-stop, non-regulatory offices set up to help businesses understand and comply with air quality, hazardous materials/waste, solid waste and water quality regulations. They act as neutral third-party mediators and their services are free and confidential. Many communities will assign a project manager to personally guide an applicant through the permit process.

#### ***Overview of Permit Procedure***

There are four elements that are generally required for a project to initiate the permit process. The following is a summary of the steps that a project may follow to become fully permitted in California.

1. An adequate description of the proposed project.
2. A completed application form of usually less than four pages.
3. The appropriate filing fee as determined by the local, state, or federal permitting authority.
4. California law requires development projects to be reviewed for any potential effects on the environment. Impacts on air and water quality, traffic, housing, and land use are generally considered. If there is a significant effect on resources, then further documentation may be required.

The permit process starts at the local level in the planning department. Local permits called "land use" permits are generally required to ensure that a proposed project or business is located in the appropriate region of the city that has been identified for similar use. These regions, called "zones" are identified in the city or county's general plan, and represent what the local government (on behalf of the citizens of that community) requires of the business to operate in a particular zone. The land use permits ensure that the proposed business is consistent with the general plan. This consistency verifies that the proposed project conforms with the overall plan for the local community.

When a proposed business first initiates the permitting process with the local authorities, it automatically begins an environmental review process. This is in the form of an Initial Study, which checks whether or not the project *may* have an effect on such factors as an increase in the amount of water supply for the project (yes, no or maybe).



Any "yes" and "maybe" impacts may need to be mitigated, depending on the local environmental and political climate. A significant number of "yes" answers may inspire the lead agency (which is in charge of coordinating all permits), to require an Environmental Impact Report (EIR).

The Permit Streamlining Act places lead agencies on strict timelines in which to issue all necessary permits. OPA is charged with enforcing the Act.